## SELF-LIQUIDATING LOANS FOR RURAL ELECTRIFICATION

In the event that additional funds might be made available, the Rural Electrification Administration requests that $110,000,000 be provided for self-liquidating loans for rural electrification, in accordance with the following summary:

$110,000,000 is total for loans.

$ 72,000,000 for loans for line construction.
terms: self-liquidating within a period of twenty-five years. Interest rate approximately 2½ per cent.

$ 2,000,000 for loans for construction of generating plant and equipment.
terms: self-liquidating within a period of twenty-five years. Interest rate approximately 2½ per cent.

$ 5,000,000 for the installation of farm wiring.
terms: self-liquidating within a period of seven years. Interest rate 1 per cent.

$ 4,500,000 for the acquisition and installation of plumbing and water systems.
terms: self-liquidating within a period of seven years. Interest rate 1 per cent.

$ 24,000,000 for financing the purchase of electric appliances for farm and home use.
terms: self-liquidating within a period of seven years. Interest rate 1 per cent.

$ 2,500,000 for the construction of cold storage locker plants.
terms: self-liquidating within a period of seven years. Interest rate 1 per cent.

## The Current Status of Rural Electrification

The Edison Electric Institute reports that on December 31, 1938, there were approximately 1,406,000 farms in the United States receiving central station electric service. One farm in five in the United States had electricity at the beginning of this year. This contrasts with a ratio of one farm in ten, four years ago, when the federal rural electrification program was started.

Since the creation of the Rural Electrification Administration in May 1935, there has been unprecedented progress in extending electric service in rural areas and the number of farms receiving electric service has doubled.

## Requests for Loans Exceed Available Funds

For some months the Rural Electrification Administration has discouraged applications for loans in order to avoid finding itself burdened with a large number of disappointed applicants to whom loans could not be made because sufficient funds would not be available. Despite this unreceptive attitude, applications for loans have continued to pour into the Rural Electrification Administration.

Applications on hand and reported to be in the course of preparation are some $60,000,000 in excess of the Rural Electrification Administration's regular appropriation for loans for the fiscal year 1940. If a reasonable prospect for additional funds were to make it possible for the Rural Electrification Administration to encourage applications,

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there would be no question of its ability to lend the $72,000,000 requested for the construction of rural electric lines and the $38,000,000 for wiring, appliances, running water systems, etc., needed to insure adequate use of electricity and, by so doing, help close the gaps between the living standard of the farmer and that of his city cousin.

Fifty millions of the $72,000,000 is in demand for financing the construction of rural lines in just 13 states. This demand is distributed as follows:

| | | | |
|---|---|---|---|
| Arkansas | $2,000,000 | Kentucky | $2,000,000 |
| Georgia | $2,000,000 | Minnesota | $5,000,000 |
| Illinois | $7,000,000 | Missouri | $3,000,000 |
| Indiana | $5,000,000 | Nebraska | $3,000,000 |
| Iowa | $7,000,000 | Pennsylvania | $2,000,000 |
| Kansas | $2,000,000 | Texas | $7,000,000 |
| | | Wisconsin | $3,000,000 |

Program Popular - Outlet for Private Power

This demand affords an indication of the strength of the rural electrification movement. The rural electrification program of the federal government is proving itself universally popular with the farmer and a steady stream of letters testifies to the favor with which it is regarded by farmers, educators, public officials, manufacturers and labor. It has been heartily endorsed by every national farm organization.

The new rural electric distribution lines provided for by appropriations made to date will make electricity available to more than half a million farm homes in forty-four states. The nationwide character of this program may be readily seen by reference to Appendix A . As these new lines have been energized and as a quarter of a million rural

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families have had the benefits of electricity for the first time, the favor with which the program is regarded has increased and the demands for further extensions of service have been intensified.

Four years ago, practically the only opposition to this program came from some of the private utility companies. Today, except in very few states, most of this opposition is rapidly disappearing as the private utility companies find a profitable market for their surplus energy in the demands of rural electric cooperatives for wholesale power. The majority of the rural electric line projects financed to date by the Rural Electrification Administration purchase the energy which they distribute from private power companies. Evidencing this change of attitude, the Georgia Power Company, of the Commonwealth and Southern system, advertises with pride that among the many services which it is rendering the State of Georgia one of the foremost is the supplying of wholesale energy to twenty-two REA-financed rural electric cooperatives.

No Competition with Private Utilities

The non-competitive feature of the rurual electrification program is assured by Section 4 of the Rural Electrification Act of 1936, which provides that "The Administrator is authorized and empowered -- to make loans -- for the furnishing of electric energy to persons in rural areas who are not receiving central station service." (Underlining added). There has been a painstaking observance of this non-competitive

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injunction of the statute and if the requested funds for loans for rural electrification are made available, they will be used to bring electricity to those people in rural areas who are without service.

Industry Benefits from Rural Line Construction

It is anticipated that approximately 65 per cent of the funds requested will be used for loans for the construction of rural electric lines. The program to date of the Rural Electrification Administration has demonstrated the wide distribution of benefits arising from the construction of these rural lines. The map attached as Appendix B shows the origin of many of the materials used. The keen competition of fabricators and vendors of the various materials used in rural line construction for an increasing portion of the total volume of business is explained by the fact that for every $100,000,000 loaned for rural line construction, approximately $12,500,000 goes into poles, $3,000,000 into line hardware and cross-arms, $500,000 into insulators, $12,000,000 into transformers, $8,000,000 into lightning arresters, cut-outs and brackets, $500,000 into grounding equipment $3,500,000 into guy wires, clamps, rods, and anchors, $1,000,000 into service wire, $2,500,000 into meters, and into conductors, the largest single item, almost $21,500,000 to be distributed among the copper, aluminum and steel interests.

Generating Plants for Isolated Areas

In connection with the request for $2,000,000 for loans for the construction of generating plants or generating equipment, it is pertinent

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to note that less than 2 per cent of the funds of the Rural Electrification Administration have been allotted for these purposes. It is desirable to have a limited amount available for these purposes in order to be able to provide sources of energy for remote rural areas.

Equipment Loans Benefit Projects and Industry

In its endeavor to acquaint the farmer who is receiving electricity for the first time with the many profitable uses of electricity and in its endeavor to make it possible for the farmer to use electricity extensively in the farm home and in farming operation, the Rural Electrification Administration is creating social values and is at the same time improving the quality of its loans through increasing the gross revenues of the projects it has financed.

In order to achieve these desirable social and financial goals, it is necessary that loans be made to enable the farmer to install adequate wiring, to purchase needed electrical equipment for his farm and family, and to put in sanitary running water systems serviced by electric pumps.

The Rural Relectrification Administration has found that on the average the farmer spends approximately $100 for wiring and $200 for electric appliances. The average farm plumbing installation costs about $200 and it is anticipated that, by group installation and by mass production, this figure can be cut in half. Appropriations to date will provide electric service for approximately 500,000 farms and

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the requested additional $72,000,000 would provide this service for more than 150,000 additional farms.

The foregoing figures provide a gauge as to the size of the virgin market being opened up for wiring, electric appliances, plumbing and water systems. Manufacturers, wiring contractors, appliance distributors, and labor will benefit by the manufacture, distribution and installation of the equipment purchased by the farmer as a direct result of having electricity available to him for the first time.

A survey of 74 rural electric line projects showed that, after an average length of electric service of only six months, 86 per cent had purchased radios, 81 per cent had purchased hand irons, 47 per cent had purchased washing machines, 25 per cent had purchased regrigerators, 17 per cent had purchased water pumps and 9 per cent had purchased small motors.

The recent development of the cold storage locker plant has decreased the living costs of the farmer, improved his diet and helped to diversify his farming operations. The $2,500,000 requested for loans for the construction of these plants would provide approximately 100 of these plants in carefully selected locations. These loans would be self-liquidating through the medium of the rentals charged for the lockers and since they are substantial consumers of electricity they would strengthen the rural electrification projects whose lines would service them.

## Legal Aspects

The Rural Electrification Act of 1936 authorizes the Rural Electrification Administration to engage in the activities covered by this request for additional funds, although to date most federal financing of electrical appliances has been done by the Electric Home and Farm Authority. A broader program encouraging the acquisition of electric appliances for the farm and for the rural home will require the Rural Electrification Administration to finance many of these acquisitions.

It is desirable that any bill making available the requested funds should provide an exemption from paragraphs (c) and (d) of section 3 of the Rural Electrification Act of 1936, which provide a formula for making mandatory allotments of a certain proportion of the loans to each state. Granting this exemption would expedite the program by making it possible to lend the funds in those states where they can be used without delay.

It is also desirable that such a bill should provide a 1 per cent rate of interest on loans whose maturities do not exceed seven years. Such a provision, reducing the cost of financing, will materially aid the appliance industry by stimulating appliance sales.

Provision must also be made for a substantial increase in administrative expenses to enable the Rural Electrification Administration to carry the new program forward effectively and expeditiously.

## Scheduling of the Program

Based on the three following conditions, it is anticipated that

Small Projects

The Rural Electrification Act of 1936 authorizes the Rural Electrification Administration to engage in the activities covered by this chapter "for additional funds", although to date most federal financing of electrical cooperatives has been done by the Electric Home and Farm Authority. A recent program encouraging the establishment of "affiliate" distributors was started not by the Rural Electrification Administration but by the Electric Home and Farm Authority.

It is believed that by the small projects financing program it would be possible to accomplish the purposes of the [illegible] of Section [illegible] of the Rural Electrification Act of 1936, which is to make a reasonable allowance of a certain proportion of the loans to each state. Funding loans available would facilitate the assigning of funds as possible to land the loans in those states where they can be used without delay.

It is also desirable that such a bill should provide a 1 per cent rate of interest on loans where maturities do not exceed seven years, and provide, moreover, the cost of financing, will materially aid the Rural Electrification Administration in making loans.

Further, such plan is not a [illegible] improvement in the relationship existing in the Rural Electrification Administration [illegible] of money [illegible] Farm Credit Administration and [illegible].

Conclusion

[illegible]

the following schedule could be achieved:

1) Provided that there was sufficient assurance by early August 1939 of the likelihood of new funds being available for loans by January 1, 1940, to permit building up an increased staff and initiating preparatory field work, and

2) Provided that loan contracts could be executed legally by January 15, 1940, and

3) Provided that adequate administrative funds are available.

All figures are cumulative.

| | Allotments Made | Loan Contracts Executed | Construction, Installation or Acquisition Completed | Funds Advanced |
|---|---|---|---|---|
| By March 31, 1940 | $ 80,000,000 | $ 40,000,000 | $ 5,000,000 | $ 2,500,000 |
| By June 30, 1940 | $110,000,000 | $ 90,000,000 | $20,000,000 | $10,000,000 |
| By September 30, 1940 | | $100,000,000 | $55,000,000 | $35,000,000 |
| By December 31, 1940 | | $110,000,000 | $80,000,000 | $60,000,000 |

Balance of program to be completed in the first six months of 1941.

## Loans Are Reasonably Secure

The Rural Electrification Act of 1936 provides that these loans shall be self-liquidating and that they shall not be made "unless the Administrator finds and certifies that in his judgment the security therefor is reasonably adequate and such loan will be repaid within the time agreed." While it may be too early to pass final judgment as to these loans, it is noteworthy that over 90 per cent of the borrowers are meeting their

the following remarks can be explained.

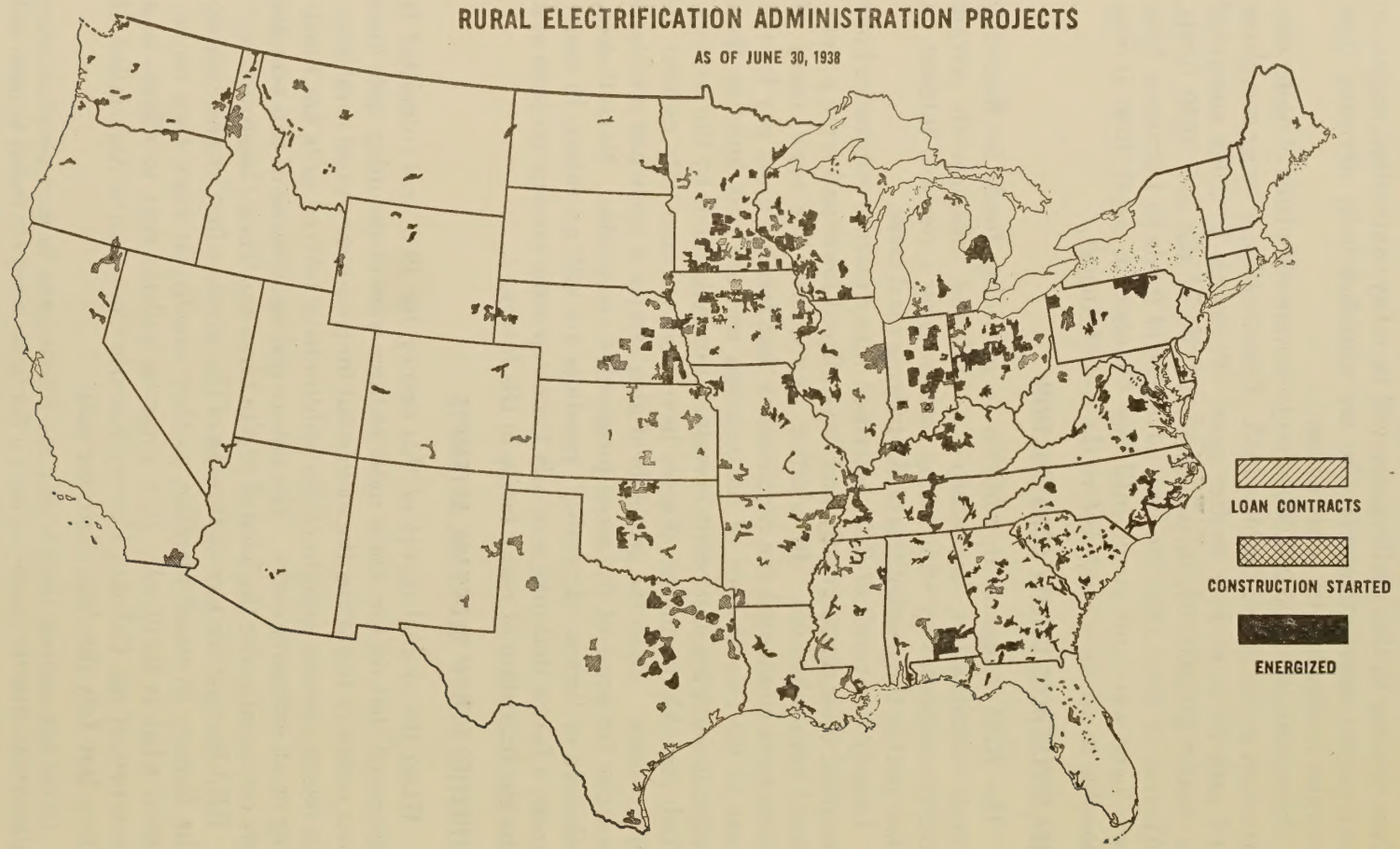
1) [illegible] that [illegible] expenses by [illegible] [illegible] in the [illegible] [illegible] [illegible]

payments on loans for lines and for generating plants, and approximately 98 per cent of the borrowers are meeting their payments on loans for wiring and plumbing.

- - - - -

June 12, 1939

APPENDIX A


RURAL ELECTRIFICATION ADMINISTRATION PROJECTS
AS OF JUNE 30, 1938
LOAN CONTRACTS
CONSTRUCTION STARTED
ENERGIZED

## SOURCES OF MATERIAL USED IN REA CONSTRUCTION